

REPORT

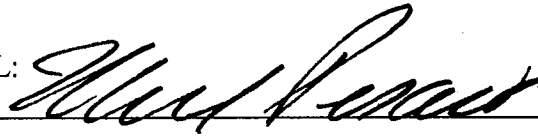
DATE: May 6, 2004

TO: Administration Committee and Regional Council

FROM: Debbie Dillon, Supervising Human Resources Officer
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SUBJECT: Merit Pay Program

EXECUTIVE DIRECTOR'S APPROVAL:



RECOMMENDED ACTION:

The Personnel Committee recommends approving the extension of the Merit Pay Program to all employees effective June 2004. Further, this extension is a two-year pilot program and Human Resources will prepare reports to the Personnel Committee semi-annually on its implementation.

BACKGROUND:

The Personnel Committee met on April 21, 2004 and considered an extension of the program to all employees. The Committee felt strongly that all employees should be evaluated and compensated based on the merit of their performance. The Committee further emphasized that the only way the program is going to be successful is by the degree of management involvement and proper controls in the system. Finally, they directed staff to make sure that the program allows for the compensation to vary from year to year depending on budget and other factors. They concluded with a two-year pilot program extending the merit pay program to all employees in June of 2004.

The following background information was provided to the Personnel Committee for their April 21, 2004 meeting.

On June 7, 2001 the Regional Council adopted the Compensation study conducted by Personnel Concepts, Inc. One component of that study was the recommendation to implement a Merit Pay Program. The parameters of that study have been the basis for SCAG's new performance evaluation process and compensation planning over the course of the last two years.

Policy direction from the Regional Council included applying the Merit Pay Program to all employees in the senior level positions and above. This includes executive management, managers, supervisors, leads and seniors. All other employees were to stay on the current compensation system until a later date.

During fiscal year 2002/2003, a new performance evaluation process was implemented that changed the rating categories from a two rating category system of Satisfactory or Unsatisfactory to a five rating category system of Excels, Above, Meets, Needs Improvement and Unsatisfactory.

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In November 2003, the Personnel and Administration Committees received a report on the status of the program.

In January 2004, the first Merit Pay compensation adjustment was applied to the senior level staff and above. All compensation adjustments were delayed for six months from the evaluation cycle in July 2003 based on prior year reduction in force and unanticipated insurance premium increases. Staff not eligible for the program also received a six-month delay in compensation. Compensation adjustments applied as follows:

Staff eligible for Merit Pay

(Senior level and above 57% of workforce):

Excels Rating	*1.5% base salary, 2.5% lump sum
Above Rating	*1.5% base salary, 1% lump sum
Meets Rating	*1.5% base salary
Below Meets	no adjustment

Staff not eligible for Pay for Performance/Merit Pay Program (43% of workforce):

*1.5% base salary adjustment if rated Meets Standards or higher

* Represents six month adjustment

These adjustments were based on guidance from Personnel Committee members as well as parameters set by the Regional Council with the adoption of the Personnel Concepts, Inc. study from 2001.

These compensation adjustments are the performance-related adjustments that staff are eligible to receive. SCAG does not provide cost of living adjustments or step increases. The only method for increasing compensation is through the Merit Pay Program.

The Peer Review Committee (PRC), a cross section of staff and management, gathered input from staff and reported on the Merit Pay Program in March 2004. The PRC supports extending the program to all employees in June 2004. The input received consisted of:

- Recognition of important contributions from staff below senior level
- Morale would be affected negatively for those not eligible
- Equity

Successful Merit Pay Programs are typically in smaller organizations that do not have organized labor. They also are successful when the communication mechanisms within the organization are working well so that continuous improvement is a goal and an outcome. The Human Resources Department continuously seeks feedback from all levels of the organization and seeks to improve the process and the tools for the program. Management and employees actively participate in the communication and assist with making the program effective. They understand that the success of the program depends on their active participation. Positive outcomes have been demonstrated in the communication process. Employees better understand how they are performing and what they need to do to improve and achieve each rating category.



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The ratings also demonstrate that the program is managed tightly and effectively. No complaints or grievances were received after implementation of the program or the first round of compensation adjustments in January 2004.

The following are the steps that have occurred over the last two years for this program as well as a statistical summary of the evaluation results:

ANNUAL PERFORMANCE EVALUATION PROCESS:

- Development and use of a new, common evaluation format for all staff.
- All employees, except probationary, were moved to a July 1 evaluation date from an anniversary date format in 2003.
- Clear definition of criteria and rating scale.
- Linkage of the process to the annual work plan, budget, and fiscal year through development of explicit and quantitative Performance Agreements with each employee.
- Training in a group setting to all Directors, Managers and Supervisors.
- Mentoring and coaching throughout process.
- Self-evaluation and performance agreement required from each employee.
- Receipt of programmatic input from all Directors, Managers and Supervisors on specific organization performance by department and unit.
- Careful review and revisions by Executive Director, Deputy Executive Director and Human Resources to ensure that the evaluation narrative and rating are in accordance with the established rating criteria.
- Annual evaluations completed for all employees in August 2003.
- Mid-year evaluations were completed for all employees in February/March of 2004.
- Feedback sought from management and staff through meetings and the Peer Review Committee.
- Additional improvements made to the form and the process.
- Annual review for FY 03/04 will be completed by end of June 2004.

EVALUATION RATING DEFINITIONS AND STATISTICS:

- **Excels** - The employee's performance has consistently exceeded the performance agreement and other position-related requirements, providing tangible and exceptional value to SCAG.
- **Above Standards** - The employee's performance frequently demonstrates more than expected for performance agreement and other position-related requirements, benefiting SCAG beyond that normally expected of the position.
- **Meets Standards** - The employee's performance meets the performance agreement and other position-related requirements.
- **Needs Improvement** - The employee's performance needs specific improvement in an area/s critical to the overall performance agreement and/or other position-related requirements, even while meeting some elements of the performance agreement and/or other position related requirements.
- **Unsatisfactory** - The employee's performance does not meet the majority of the element/s critical to the performance agreement and/or position-related expectations, requiring immediate, significant, and sustained improvement in their performance.

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Rating	July 2003 Annual Rating	Mid-Year Review FY 03/04
Excels	17 or 17%	10 or 10%
Above	23 or 22%	25 or 25%
Meets Standards	59 or 57%	64 or 63%
Needs Improvement	4 or 4%	3 or 3%
Unsatisfactory*	0	0
TOTAL**	103	102

* New rating category added in Mid-Year cycle

** Excludes probationary employees

CONCLUSIONS:

We are on target for a second-year Merit Pay Program. It has been a valuable process for seeking input. Employees and management are supporting the program and are committed to its success. We will continue to seek feedback from all levels of the workforce and make refinements to the program as we progress. We made revisions to the forms for the next cycle based on feedback we sought in March after the Mid-Year process. We are seeing that the evaluation form is improving the communication for performance feedback. Staff has generally noted that a higher level of compensation tied to the performance motivates them to achieve at a higher level.

FISCAL IMPACT:

Funds have been budgeted for Fiscal Year 2004/2005 for performance related pay adjustments.

